

SUMMIT PERSPECTIVE

WHAT HAPPENED TO SILICON VALLEY BANK?

By Michael Schomaker

Over the last month, advisors at Summit Financial Group have been fielding questions regarding the rapid demise of Silicon Valley Bank. And appropriately so. Here was a high-profile local bank that had made a name for itself on the national scene. And it failed, right here in our own backyard. What happened?

For starters, let's look at how banks operate in general. To a large degree, their business models revolve around taking in deposits from their customers. There are specific rules and regulations that govern what portion of these deposits must be retained for liquidity purposes. Where the banks make money is in lending out the percentage of deposits they are not required to hold in reserve. Business lines of credit, home mortgages and auto loans are all examples of ways banks lend out money and charge interest that is in excess of what they pay their depositors. In its simplest form, this is how banks generate their profits.

Problems can arise when, for whatever reason, a significant percentage of depositors want their money all at once. This is called a bank run. When customer demand outstrips the reserves that are available, the bank becomes insolvent. This can theoretically happen to any bank.

Silicon Valley Bank's approach to business was different from your average bank in several ways. They were not focused on maintaining checking and savings accounts for families and individuals. Their target customers were the tightly connected group of venture capitalists in the Bay Area and the many startup companies with which they worked. Over 90 percent of accounts exceeded the \$250,000 FDIC insurance



threshold. This contrasts with below 50 percent for the average regional bank.

When the venture market grew significantly in 2020 and 2021, Silicon Valley Bank's deposit base swelled beyond what it could effectively loan out. Rather than put all the excess into low-yielding, short-term investments, the bank decided to place a significant amount of these funds into higher-yielding, longer-term Treasuries. As 2022 unfolded and the Fed raised interest rates to combat inflation, the treasury bonds on Silicon Valley Bank's balance sheet became less valuable. While Treasuries are risk free, their price fluctuates with interest rate changes prior to maturity. This would not be a problem if they could hold the bonds to maturity. However, the bonds they owned were years from maturing and Silicon Valley Bank found itself needing to raise cash to meet unexpected withdrawals. The frothy VC environment of 2020 and 2021 had reversed itself and companies were now needing to spend their cash reserves. To meet this demand, Silicon Valley Bank would either have to sell the bonds at a substantial loss or try to raise cash through an issuing of stock. When their highly connected clientele got word of this dilemma, knowing that the vast majority of their deposits were not covered by the FDIC, there was a bank run and Silicon Valley Bank was shut down within 24 hours.

In the aftermath, another regional bank also failed: New York based Signature Bank. First Republic Bank was on the ropes and

Continued on back page



SUMMIT
FINANCIAL GROUP, LLC

INSIDE THIS EDITION

Feature Article:
What Happened to Silicon Valley Bank?

Summit Spirit Award:
Tyler Bailey and Special Olympics

Summit University:
Spring Seminars

Community Corner:
The Spirit of Giving Comes Full Circle

Staff Spotlight:
Congratulations All Around!

Summit Trivia Challenge

It's Back:
Summit Shredding Event

“

Life is 10% of what happens to us and 90% of how we respond to it.

- Charles Swindoll

”

KUDOS!

Summit Spirit Award:

Tyler and Special Olympics Northern California

Each quarter, Summit recognizes one team member who receives kudos from their peers and managers for going the extra mile. The winner receives \$1,000 to donate to the charity of his or her choice. Congratulations to Financial Planning Associate, Tyler Bailey as the recipient of this quarter's Summit Spirit award!



Tyler: I am donating my Summit Spirit Award to Special Olympics Northern California based in Pleasant Hill, California.

Special Olympics Northern California enriches the lives of more than 26,000 children and adults with intellectual disabilities and their communities in Northern California through sports, education, and athlete health.

The mission of Special Olympics is to provide year-round sports training and athletic competition in a variety of Olympic-type sports for children and adults with intellectual disabilities. This gives them continuing opportunities to develop physical fitness, demonstrate courage, experience joy, and participate in a sharing of gifts, skills, and friendship with their families, other Special Olympics athletes, and the community.

As the older brother of a special needs sister, I want to empower and support individuals with special needs in making connections, developing healthy lifestyles, achieving success, and experiencing the joy of sports.

For additional information about Special Olympics Northern California visit:
<https://www.sonc.org/>



Upcoming Workshops



Our Spring Retirement Seminars are Coming Up!

RETIREMENT PLANNING TODAY

Whether you plan to retire 20 years from now or have just recently retired, the information you'll learn in this class can deliver rewards throughout your lifetime. During this two-evening workshop, you will learn how to create an informed retirement plan and set goals for a successful retirement.

Second Saturday Divorce Workshop

Are you considering divorce, or in the midst of a divorce? As you contemplate your next steps and possibly plan your next chapter, it is important to have the tools needed to evaluate the impact divorce can have on your personal and financial life.

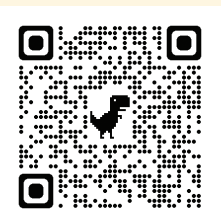
This workshop run by an attorney, a therapist, and a financial advisor will touch on the legal, emotional, and financial topics involved with divorce. Discussions will include issues and challenges that everyone considering or going through a divorce should understand. Come educate yourself and explore various options available to you as you work toward building a strategy for future emotional and financial success.



Learn more and register for classes through the Summit University page on our website:

[summitadvisors.com/
education/university/](https://summitadvisors.com/education/university/)

OR call 925-866-7800.



Financial Professionals do not provide specific tax/legal advice and this information should not be considered as such. You should always consult your tax/legal advisor regarding your own specific tax/legal situation.

COMMUNITY CORNER

THE SPIRIT OF GIVING COMES FULL CIRCLE

In our winter 2022 edition of Community Corner, Summit featured the work of Missing Man Ministry (M3), a nonprofit dedicated to providing transitional support to families facing the loss of a husband/father and connects survivors to its network of service providers.

At the same time the newsletter was being written, Summit Retirement Plan Specialist Julie Pelletier was selected as our Summit Spirit Award recipient. As the winner, she received \$1,000 to donate to the charity of her choice. While she was mulling over her options, she heard about M3 and immediately selected the organization as her beneficiary. It was the obvious choice. Julie, a mother of four, had suddenly lost her husband, Rich, in 2020. She was still reeling from the loss and was struggling to adapt to the financial and emotional changes that inevitably arise after the death of a loved one.

Once the donation was received by the nonprofit, Julie was approached by its board president and Summit client, David Doyle. He read her story and wanted to meet Julie. He ended up inviting her to join M3. She began as an intake coordinator and recently became a grant writer for the organization, a position she is well suited to carry out. In fact, she recently attended a Rotary Club of Livermore luncheon where she accepted a grant on behalf of M3. Here's the kicker: Julie accepted the award on

March 29, the third anniversary of her husband's passing! The grant will help families repair homes that sustained damage from this winter's powerful storms.

Julie says it's important to her to help those going through what she endured. "It's lucky I lost Rich when I was 53, not 43," said Julie. "At the time I lost him, my career was going well and I could support myself. I was independent. I had the benefit of having a strong support group, job skills, education, and access to grief counseling. Others don't have that."

She relates her grief experience to "climbing Mt. Kilimanjaro." But, she said, "Those with no family, no job, and less support ... that experience would feel like climbing Mt. Kilimanjaro without shoes on. Because of the support I have received, I still wake up happy and have energy. I want to help those less fortunate, those whose worlds have been turned upside down, and give them hope, let them know there is life after death."

To learn more about Missing Man Ministry, visit: missingmanministry.org



Julie Pelletier accepting a grant on behalf of M3 from Rotary Club of Livermore.

STAFF SPOTLIGHT

Congratulations All Around!



Welcome to Summit, Nancy McMillin!

Nancy serves as the Executive Assistant for Nathan Bennett. She brings with her 20 years of experience in operations roles across a variety of industries and at companies large and small. Nancy loves supporting Nathan and the team allowing them to focus their time on serving clients at the highest possible level.

Nancy grew up in a small rural town in Iowa but fell in love with the Bay Area on vacation and relocated as soon as she could. She graduated from Northwestern University where she earned a degree in Industrial Engineering.

Nancy and her husband, Jim, reside in Livermore and have two adult sons. They love pursuing active outdoor adventures, so you'll often find them skiing/snowboarding, hiking, backpacking and mountain biking. Join us in welcoming her!

Happy Retirement to Teresa Hookey!

We bid a fond farewell to **Teresa** on March 31. Teresa was part of the Summit team since its inception. For 16 years she served as Controller, overseeing the company financials and office management. "Teresa has been there as a constant from day one," said Summit Partner, Nathan Bennett, during his opening speech at our recent Summit Symposium where Teresa was honored. "For those of us who needed to focus on growing the company and pour into our clients and work with our people, knowing that part of the business was taken care of was a blessing."

Thank you, Teresa! We wish you all the best on your retirement journey. Summit will be forever grateful for your service!



Congratulations, Gina!

Summit prides itself on being a trusted resource for business owners, which is why we are proud to announce that Advisor **Gina Morais** has received her Certified Exit Planning Advisor (CEPA) designation! The CEPA is a unique designation for financial professionals who wish to support business owners with exit planning. According to the Exit Planning Institute, being a Certified Exit Planning Advisor enhances the professional's ability to engage business owners and have value-added conversations about growth and exit. If you are a business owner and have questions about your exit and succession strategy, Gina can help!



WHAT HAPPENED TO SILICON VALLEY BANK? *Continued from Page 1*

was extended a lifeline of funding from the Federal Reserve and JP Morgan. Regulators took over Silicon Valley Bank and ended up extending FDIC protection to all depositors. While it is disconcerting when failures of this magnitude happen in our financial system, it feels like regulators did the right thing to stem a loss of confidence systemwide. While there is no guarantee that we are completely out of the woods with respect to risk in the banking sector, things seemed to have stabilized in the short term.

There has been much pontificating as to whether the current regulatory environment contributed to the collapse of Silicon Valley Bank and the best strategy to employ going forward. We won't speculate. We do know that smaller community and regional banks that can operate with flexibility are a good thing. It is in all our best interests not to have the banking industry consolidate to four or five mega banks. Given the panic that set in with Silicon Valley Bank clients, even higher reserve requirements and tighter oversight most likely would not have prevented the bank's collapse. Too many of their clients wanted all their money at once.

What does this mean for Summit Financial Group and how we shepherd our clients' investments? Our philosophy remains unchanged. Investment strategy is the result of a goals-based planning process. We work to understand our clients' cash flow needs in the short, medium, and long term, then construct appropriate portfolios to meet those needs. Not to make light of the current banking situation, but there is always something about which to be concerned. Every day there are headlines that can distract us and pull us away from following through on a well-constructed financial plan. Don't hesitate to reach out to your advisor if you are feeling the tug of current events. It is in these moments that we want to be available to help in any way we can.

This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding any funds or stocks in particular, nor should it be construed as a recommendation to purchase or sell security. Past performance is no guarantee of future results. Investments will fluctuate and when redeemed may be worth less or more than when originally invested.

SUMMIT TRIVIA CHALLENGE



The answer to this quarter's question can be found on the Summit Facebook page facebook.com/summitfinancialgroup/. Each person to submit the correct response will be entered to win a \$25 Starbucks gift card.

Ready? Here it is ...

What was unusual about the view from Summit's office windows in February?

Know the answer?

Email it to angela@summitadvisors.com by May 10. The Trivia Challenge winner will be notified via email.

SPRING CLEANING PAPER SHREDDING

FEELING THE URGE TO PURGE?

Our annual complimentary paper shredding event is almost here! Summit advisors and staff will be on-site to greet you as you arrive to shred your stacks.

When: Saturday, May 6th; 1PM - 4PM

Where: Summit Financial Group Parking Lot
2000 Crow Canyon Place
San Ramon, CA 94583

CONTACT US



2000 Crow Canyon Place, Suite 450
San Ramon, CA 94583

Office: 925.866.7800

info@summitadvisors.com ■ summitadvisors.com